

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 NSC-05 NSCE-00 CAB-02 CIAE-00

COME-00 DODE-00 DOTE-00 INR-07 NSAE-00 FAA-00 L-03

SS-15 SSO-00 INRE-00 H-01 /054 W

-----011154 089944 /12

O 011132Z MAR 77 ZFF 4

FM AMEMBASSY LONDON

TO SECSTATE WASHDC NIACT IMMEDIATE 1092

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FOR COOPER AND KATZ (STATE), ADAMS (DOT) AND ROBESON  
(CAB). PASS WHITE HOUSE FOR JOHNSTON AND COMMERCE FOR  
TOLO

E.O. 11652: N/A

TAGS: EAIR, UK

SUBJECT: US-UK CIVAIR NEGOTIATIONS, USDEL REPORT OF  
FIRST MEETING FEBRUARY 28

1. SUMMARY: AT FIRST MEETING ON FEB. 28, USDEL GAVE  
GENERAL PRESENTATION OF US VIEWS ON NORTH ATLANTIC AIR  
SERVICES INDICATING THAT, WHILE WE MIGHT HAVE SOME GIVE  
ON AIR FARES, PROCEDURES FOR SETTling CAPACITY DISPUTES,  
AND NUMBER OF DESIGNATED AIRLINES, US WOULD NOT FOREGO  
ROUTE RIGHTS BEYOND UK OR CAPACITY ARRANGEMENTS WHICH  
REMOVE COMPETITIVE ELEMENT AND RESULT IN 50-50 MARKET  
SHARES. UKDEL APPRECIATED US HAD DEVELOPED POSITIONS  
WHICH MOVED TOWARD UK IN SOME AREAS, BUT WAS GREATLY  
DISAPPOINTED US INSISTED ON KEEPING ITS BEYOND RIGHTS.  
UK GOVERNMENT ATTACHED GREATEST IMPORTANCE TO RESOLVING  
"UNREQUITED IMBALANCE" QUESTION AND NEW AGREEMENT  
UNLIKELY BY JUNE 22 IF US HELD TO ITS POSITION ON ROUTES.  
US CHAIRMAN SAID US WAS DEAD SERIOUS ON BEYOND RIGHTS AND  
INVITED UK TO MOVE TOWARD US POSITION. CHARTER FLIGHTS  
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FOR 1977 WERE ALSO DISCUSSED, WITH UK TAKING POSITION  
THAT, SINCE IT COULD NOT BREAK ECAC FRONT, THERE WAS VIR-  
TUALLY NO PROSPECT REACHING AGREEMENT. USDEL INTENDS  
DRAW LINE ON UK PROPOSAL ON CAPACITY, WHICH SHOWS NO  
MOVEMENT DESPITE REPEATED EARLIER US STATEMENTS THAT  
CAPACITY PREDETERMINATION IS NOT NEGOTIABLE. END SUMMARY

2. US CHAIRMAN (AMBASSADOR BOYD) MADE OPENING STATEMENT ALONG FOLLOWING LINES: US BELIEVES CERTAIN FUNDAMENTAL PRINCIPLES MUST BE PRESERVED IN NEW AGREEMENT. AMONG THESE ARE THAT AGREEMENT CANNOT REQUIRE 50-50 MARKET SHARE; THAT ADEQUATE COMPETITION MUST BE MAINTAINED; THAT ROUTE EXCHANGE MUST PROVIDE A VIABLE ROUTE SYSTEM BASED ON GEOGRAPHIC POSITION EACH COUNTRY, RESPECTIVE TRAFFIC FLOWS, AND BROAD ECONOMIC INTERESTS EACH COUNTRY; AND THAT NEW AGREEMENT SHOULD GIVE AIRLINES EACH COUNTRY OPPORTUNITY TO BENEFIT FROM GROWTH, RATHER THAN RESULT IN TRANSFER OF REVENUES FROM ONE TO THE OTHER. THESE PRINCIPLES LEAD TO CONCLUSIONS THAT US CANNOT FOREGO ROUTE RIGHTS BEYOND UK AND HONG KONG AND THAT PREDETERMINATION OF CAPACITY CANNOT BE ACCEPTED. HOWEVER, US IS PREPARED TO DISCUSS PROCEDURES TO RESOLVE CAPACITY DISPUTES, SOMETHING LESS THAN THE RIGHT TO DESIGNATE AN UNLIMITED NUMBER OF AIRLINES, AS WELL AS A NEW AIR FARE ARTICLE WHICH ADDRESSES DIRECTLY STANDARDS FOR SETTING FARES. LASTLY, ALTHOUGH US CONSIDERS IT PREMATURE TO CONSIDER CHARTER AND SCHEDULED AIR SERVICES UNDER A ONE-MARKET APPROACH, IT WILL BE ESSENTIAL TO LINK LONG-TERM ARRANGEMENTS ON CHARTERS WITH A NEW AGREEMENT ON SCHEDULED SERVICES.

3. UK CHAIRMAN (PATRICK SHOVELTON, DEPUTY SECRETARY, DEPT. OF TRADE) REPLIED THAT US HAD CLEARLY DONE A CONSIDERABLE AMOUNT OF WORK SINCE THE LAST NEGOTIATIONS AND HE APPRECIATED THAT THE US HAD MOVED TOWARD THE UK POSITION IN SEVERAL AREAS. HOWEVER, HE EXPRESSED STRONG LIMITED OFFICIAL USE

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DISAPPOINTMENT, AS WAS CERTAIN UKG MINISTERS WOULD ALSO, OVER FACT THAT US NOT ONLY WANTED TO KEEP ALL ITS BEYOND ROUTE RIGHTS BUT EVEN ADD TO THEM. UK DID NOT CONSIDER THAT BEYOND RIGHTS FOR US WERE APPROPRIATE EXCHANGE FOR UK ABILITY CARRY TRAFFIC FROM EUROPE AND MIDDLE EAST THROUGH UK TO US. IF US ADHERED TO THIS POSITION, THERE COULD BE NO NEW AGREEMENT BY JUNE 22 AND TWO SIDES WOULD HAVE TO WORK OUT PATCHWORK ARRANGEMENTS. IT WAS NOT CREDIBLE, HE SAID, THAT UK WOULD HAVE DENOUNCED AGREEMENT IF IT HAD BEEN CONTENT TO LIVE WITH THE UNREQUITED IMBALANCE OF ROUTES IN THAT AGREEMENT. BOYD AGREED THAT NEGOTIATIONS COULD RUN AGROUND OVER ROUTES, BUT US WAS DEAD SERIOUS OVER ROUTES. MOREOVER, US IS NOT LOOKING FOR A PATCHWORK ARRANGEMENT IF AGREEMENT CANNOT BE REACHED (A REFERENCE TO EARLIER TRANSITIONAL ARRANGEMENTS PROPOSED BY UK IN WHICH US WOULD LOSE RIGHTS OVER A TRANSITIONAL PERIOD) AND THERE IS NO ONUS ON US TO ACCEPT AS PRICE FOR A NEW AGREEMENT CONDITIONS WHICH ARE TOTALLY UNACCEPTABLE TO US.

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SS-15 SSO-00 INRE-00 H-01 /054 W  
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C O R R E C T E D C O P Y (PARA 8 ADDED)

4. PLACING MATTER IN BROADER CONTEXT, SHOVELTON SAID THAT, WHILE UK APPRECIATED HELP US HAD GIVEN THROUGH IMF IN ITS ECONOMIC DIFFICULTIES, UK HAD TOO LONG NEGLECTED TAKING ADVANTAGE OF ITS GEOGRAPHICAL POSITION BOTH IN BRITAIN AND HONG KONG TO DEVELOP ITS AVIATION POSITION AS A MEANS OF CONTRIBUTING TO BRITISH ECONOMIC RECOVERY. IT WAS IN THIS CONTEXT THAT UK WAS SO ADAMENT ON ROUTE RIGHTS. BOYD ACCEPTED LEGITIMACY OF THIS VIEW BUT SAID IT WAS ALSO APPROPRIATE FOR US TO EXPLOIT ITS AVIATION ADVANTAGES AND IT INTENDED TO DO SO.

5. FOLLOWING THIS DELINEATION OF GENERAL POSITIONS, UKDEL TABLED ITS AIR FARE AND CAPACITY PROPOSALS. LATTER PROVIDES THAT EACH COUNTRY HAVE MIRROR IMAGE ROUTES BETWEEN US AND UK CITIES ON EACH OF WHICH CAPACITY WOULD BE SPLIT 50-50. INCREASES IN CAPACITY WOULD BE AGREED BY AIRLINES OR BY GOVERNMENTS IF AIRLINES CANNOT AGREE.

6. IN DISCUSSION OF CHARTER FLIGHTS FOR 1977, BOYD URGED  
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UK TO ACCEPT US CHARTERWORTHINESS RULES IN VIEW OF WHAT APPEARED TO BE MINOR DIFFERENCES FROM UK POSITION. SHOVELTON SAID UK COULD NOT BREAK FROM ECAC POSITION AND THEREFORE THERE APPEARED TO BE NO POINT IN PURSUING THE DISCUSSION. WHILE BOYD AGREED THERE WAS LITTLE PROSPECT OF REACHING AGREEMENT, WORKING GROUP WAS ESTABLISHED TO EXCHANGE INFORMATION.

7. CERTAIN IMMEDIATE ISSUES WERE DISCUSSED WHICH WILL BE REPORTED SEPTEL.

8. USDEL ASSESSMENT: UK POSITION, PARTICULARLY REGARDING CAPACITY CONTROL, IS A REAFFIRMATION OF POSITION TAKEN WHEN AGREEMENT DENOUNCED LAST JUNE AND REJECTED BY US DURING DECEMBER TALKS AND IN SUBSEQUENT VERBAL AND WRITTEN MESSAGES GIVEN AT HIGH LEVELS OF USG TO BRITISH. DESPITE FACT WE SAID IN OUR AIDE MEMOIRE OF JAN. 27 THAT UK POSITION WAS NOT ACCEPTABLE AS BASIS FOR NEGOTIATION AND THAT PROGRESS COULD NOT BE MADE IN THIS CURRENT ROUND OF TALKS UNLESS UK MODIFIED ITS POSITION, UK HAS GIVEN NO INDICATION OF RESPONSIVENESS. IN FACT, ALTHOUGH GIVEN OPPORTUNITY TO DO SO, IT HAS AGAIN REAFFIRMED ORIGINAL POSITION. USDEL INTENDS THEREFORE AT OPENING OF MEETING ON MARCH 1 TO REVIEW FOREGOING HISTORY, NOTE THAT US HAS SUBMITTED RESPONSIVE PROPOSALS, PARTICULARLY ON CAPACITY AND AIR FARES, AND STATE CATEGORICALLY THAT UK PAPER ON CAPACITY CANNOT PROVIDE BASIS FOR NEGOTIATIONS. WE WILL STRESS THAT, PERHAPS UNLIKE OTHER ISSUES, DIFFERENCES ON CAPACITY DERIVE FROM FUNDAMENTAL PHILOSOPHICAL AND POLICY PRECEPTS WHICH US CANNOT AND WILL NOT COMPROMISE, I.E., 50/50 SPLIT OF MARKET AND ELIMINATION OF COMPETITION. WE WILL INVITE UKDEL TO CONTINUE NEGOTIATIONS BASED ON US CAPACITY PROPOSAL AND OFFER RECESS TALKS FOR DAY OR SO, IF NECESSARY, TO GIVE UKDEL TIME TO REVIEW US PROPOSAL AT HIGHEST LEVELS. IF, FOLLOWING SUCH REVIEW, UK REAFFIRMS ITS POSITION ON CAPACITY, USDEL INTENDS TERMINATE THIS SESSION OF TALKS ON GROUNDS THAT IT WOULD BE POINTLESS TO PURSUE OTHER ISSUES LIMITED OFFICIAL USE

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IF TWO SIDES CANNOT FIRST OVERCOME THEIR DEEP SEATED POLICY AND PHILOSOPHICAL DIFFERENCES ON CAPACITY.

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## Message Attributes

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